

THE LINK WITH GOLD

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the supply of credit, produce, without the actual loss of gold, the effects which that loss would have brought about.

The keystone of the system was the rigid link between legal tender currency and gold. This was secured by the provisions of the Bank Act of 1844, which laid down that above a certain line

—which was before the war roughly £8 millions —every

Bank of England note issued should have gold behind it, pound for pound. In other words, the Bank of England note was, for practical purposes, a bullion certificate. The legal limit on the fiduciary issue (that is, the issue of £18 millions against securities,

not gold) could only be exceeded by a breach of the law. The many critics of our banking system seized on this hard-and-fast restriction and accused it of making our system inelastic as compared with the

German arrangement, under which the legal limit could at any time be exceeded on payment of a tax or fine on any excess perpetrated.

These critics might have been right if legal tender currency had been the only, or even the predominant, means of payment in England. But, as every office-boy knows, it was not. Legal tender—gold and Bank of England notes—was hardly ever seen in commercial

and financial transactions on a serious scale. We paid, sometimes, our retail purchases of goods and

services in gold; and Bank notes were a popular mode of payment on racecourses and in other places where transactions took place between people who were not very certain of one another's standing or good faith. But the great bulk of payments was